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For information

Greeting Card and related Operations**

Financial report and statements for the year ended 30 April 1997

Summary

This document presents the results of UNICEF Greeting Card and related Operations (GCO) for the year ended 30 April 1997.

The net operating income from the sale of UNICEF greeting cards and other products was $68.8 million, representing a 42.2 per cent return on gross proceeds and a decrease of $7.7 million (10.1 per cent) compared to 1995. In 1996, 158 million cards were sold, the same as in 1995. However, gross proceeds decreased by $3.5 million (2.1 per cent), from $166.5 million in 1995 to $163.0 million in 1996.

The net operating income from private sector fund-raising activities was $91.6 million, a decrease of $1.6 million (1.7 per cent) compared to 1995. With this decrease in net operating income from private sector fund-raising activities, and after allowing for other charges of $1.9 million for the Market Development Programme, $6.5 million for the Fund-raising Development Programme, $0.1 million for exhibits and $0.7 million for the Central and Eastern European National Committees Development Programme, GCO, in 1996, achieved a net operating income of $151.2 million, a decrease of $7.9 million, or 5.0 per cent lower when compared to 1995.

After allowing for an unfavourable exchange rate adjustment of $11.3 million, prior years' favourable adjustment of $0.3 million and office move- related expenses of $0.7 million, the total net income of GCO in 1996 was $139.5 million, $11.8 million (7.8 per cent) lower than in 1995. In addition, $103.1 million ($103.6 million in 1995) were raised from private sector fund-raising activities which were earmarked by partners for allocation to supplementary-funded projects.

* E/ICEF/1998/12.
** Effective 1 February 1998, GCO became the Private Sector Division.

Contents

	Paragraphs	*Page*
Foreword		3
Financial report for the year ended 30 april 1997	1-49	4
A. An overview of the results	1-4	4
B. Financial statements for the year ended 30 April 1997	5	4
Statement I. Statement of income and expenditure for the year ended 30 April 1997		5
Statement II. Statement of assets, liabilities and surplus as at 30 April 1997		6
Statement III. Statement of the results for the year ended 30 April 1997 compared with the approved budget		7
C. Notes to the financial statements	6-49	8

Annexes

I-A.	Gross proceeds GCO products by region, 1995-1996: national committees	20
I-B.	Gross proceeds GCO products by region, 1995-1996: UNICEF field offices	21
II.	Net proceeds from private sector fund-raising - 1996 compared to 1995	22

Foreword

I am pleased to report that in 1996 the Greeting Card and related Operations (GCO) were able to achieve a net contribution to UNICEF general resources income of $139.5 million and a sales volume of 158 million cards.

This success is due to the work of hundreds of thousands of individuals around the world. Our thanks go to the National Committees for UNICEF and other cooperating groups whose staff and volunteers sold UNICEF cards and other products; to the hundreds of artists, museums and art collectors whose works were made available, at no charge, for greeting card designs; and to the millions of individuals who purchased UNICEF cards and other products and who donated their time and money to the cause of UNICEF throughout the year. Equally important, the above achievements became possible because of the successful fund-raising efforts undertaken by the National Committees for UNICEF and UNICEF field offices, and the millions world wide who responded with their individual contributions.

(signed) Carol Bellamy
Executive Director

Financial report for the year ended 30 april 1997

A. An overview of the results

1. The total net income contribution to UNICEF general resources from GCO activities was $139.5 million. This compares with $151.3 million in 1995, a decrease of $11.8 million (7.8 per cent). The contribution consists of $68.8 million net operating income from the sale of UNICEF greeting cards and other products; $91.5 million net operating income from private sector fund-raising activities; and other charges and adjustments. These other charges and adjustments include Market Development Programme (MDP) expenditure ($1.9 million), Fund-raising Development Programme (FDP) expenditure ($6.5 million), Central and Eastern European National Committees Development Programme expenditure ($0.7 million), exhibits ($0.1 million), unfavourable exchange rate adjustment ($11.3 million), prior years' adjustments ($0.3 million) and office move-related expenses ($0.7 million).

2. A total of 158 million cards were sold in 1996, the same as in 1995. While the card sales volume remained the same, gross proceeds decreased from $166.5 million in 1995 to $163.0 million in 1996, due primarily to the impact of unfavourable exchange rates.

3. The net operating income from the sale of UNICEF greeting cards and other products in 1996 was $68.8 million (42.2 per cent return on gross proceeds), a decrease of $7.7 million (10.1 per cent) compared to 1995.

4. The net operating income from private sector fund-raising activities related to general resources was $91.5 million in 1996, a decrease of $1.6 million (1.7 per cent). In addition, $103.1 million ($103.6 million in 1995) were raised from private sector fund-raising activities which were earmarked, by partners, for allocation to supplementary-funded projects.

B. Financial statements for the year ended 30 April 1997

5. The three financial statements that follow are supported by the notes to the financial statements, including a summary of significant accounting policies (paras. 7-15), which are considered an integral part of the financial report.

STATEMENT I

Statement of income and expenditure for the year ended 30 April 1997

(In thousands of United States dollars)

	Note	1996 season 1 May 1996 - 30 April 1997	%	1995 season a/ 1 May 1995 - 30 April 1996	%	Increase/(decrease)	%
Gross proceeds - GCO products	3	162,961	100.0	166,467	100.0	(3,506)	(2.1)
Less: Retention/commissions and direct expenses at field offices	4	41,538	25.5	42,073	25.3	(535)	(1.3)
Net proceeds		121,423	74.5	124,394	74.7	(2,971)	(2.4)
Less: Cost of goods delivered	5	34,815	21.4	32,655	19.6	2,160	6.6
		86,608	53.1	91,739	55.1	(5,131)	(5.6)
Less: Operating costs	6	24,142	14.8	22,966	13.8	1,176	5.1
Provision for uncollectible accounts receivable	7	577	0.4	547	0.3	30	5.5
		61,889	38.0	68,226	41.0	(6,337)	(9.3)
Add: Other income	8	6,918	4.2	8,321	5.0	(1,403)	(16.9)
Net operating income - GCO products	9	68,807	42.2	76,547	46.0	(7,740)	(10.1)
Net operating income - Private sector fund-raising a/	10	91,548		93,173		(1,625)	(1.7)
Less: Other charges							
Market Development Programme	11	1,879		2,199		(320)	(14.6)
Fund-raising Development Programme	12	6,473		6,978		(505)	(7.2)
Exhibits	13	135		158		(23)	(14.6)
Central and Eastern European National Committees Development Programme	14	702		1,278		(576)	(45.1)
Total net operating income	15	151,166		159,107		(7,941)	(5.0)
Less: Exchange rate adjustment	16	11,278		3,233		8,045	248.9
Prior years' adjustments (gain)	17	(265)		4,562		(4,827)	(105.8)
Office move-related costs	18	681		0		681	100.0
Total net income	19	139,472		151,312		(11,840)	(7.8)
Number of cards sold (millions)		158		158		0	0.0

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

a/ Excluding $103.1 million allocated to supplementary funds, compared to 103.6 million in 1995 (see para. 28). This is shown in the UNICEF financial report.

Ellen Yaffe, Comptroller
(Signed)

Carol Bellamy, Executive Director
(Signed)

STATEMENT II

Statement of assets, liabilities and surplus as at 30 April 1997

(In thousands of United States dollars)

	Note	As at 30 April 1997		As at 30 April 1996		Increase/(decrease)	
ASSETS							
Cash	20		1,128		1,718		(590)
Accounts receivable	21	180,484		210,175		(29,691)	
Less: Allowance for exchange rate fluctuation and uncollectible accounts		18,955		21,375		(2,420)	
Net accounts receivable	22		161,529		188,800		(27,271)
Inventory	23		18,707		21,853		(3,146)
Prepaid expenses	24		249		253		(4)
Capital assets, net of accumulated depreciation	25		1,306		1,950		(644)
TOTAL ASSETS			182,919		214,574		(31,655)
LIABILITIES							
Accounts payable	26	7,795		8,270		(475)	
Inter-office account	27	35,652		54,992		(19,340)	
TOTAL LIABILITIES			43,447		63,262		(19,815)
SURPLUS	28		139,472		151,312		(11,840)
TOTAL LIABILITIES AND SURPLUS			182,919		214,574		(31,655)

Ellen Yaffe, Comptroller
(Signed)

Carol Bellamy, Executive Director
(Signed)

STATEMENT III
Statement of the results for the year ended 30 April 1997 compared with the approved budget (In millions of United States dollars)

	Actual	Approved budget a/	Variance Increase (decrease) $	Variance Increase (decrease) %
Income				
Gross proceeds - GCO products	163.0	170.0	(7.0)	(4.1)
Less: National Committees' retention	35.2	36.2	(1.0)	(2.8)
Net proceeds	127.8	133.8	(6.0)	(4.5)
Add: Other income	6.9	6.5	0.4	6.2
Total net proceeds - GCO products	134.7	140.3	(5.6)	(4.0)
Net proceeds - private sector fund-raising	98.7	125.0	(26.3)	(21.0)
Total income	233.4	265.3	(31.9)	(12.0)
Expenditures				
Director's Office	0.5	0.8	(0.3)	(37.5)
Product Line and Marketing	52.8	58.8	(6.0)	(10.2)
Market Development Programme	1.9	4.0	(2.1)	(52.5)
Private Sector Fund-raising	7.1	10.5	(3.4)	(32.4)
Fund-raising Development Programme	6.5	7.8	(1.3)	(16.7)
Operations and Finance	11.8	14.4	(2.6)	(18.1)
Exhibits	0.1	0.2	(0.1)	(50.0)
Office move-related costs	0.7	0.7	-	-
GCO share in UNICEF administrative costs	0.2	0.3	(0.1)	(33.3)
Central and Eastern European National Committees Development Programme	0.7	1.4	(0.7)	(50.0)
Total expenditures	82.3	98.9	(16.6)	(16.8)
Total net income before adjustments	151.1	166.4	(15.3)	(9.2)
Adjustments				
Provision for doubtful accounts	0.6	-	0.6	-
Exchange rate adjustments	11.3	-	11.3	-
Prior years' adjustments	(0.3)	-	(0.3)	-
Total net income after adjustments - general resources	139.5	166.4	(26.9)	(16.2)
Add: Supplementary funds - private sector fund-raising	103.1	120.0	(16.9)	(14.1)
Total net revenues - general resources and supplementary funds	242.6	286.4	(43.8)	(15.3)

a/ In accordance with Executive Board decision 1996/22, para.2 (E/ICEF/1996/12/Rev.1), these amounts reflect the low projection b

For details on variances between actual and the approved budget see note 29 (para. 49) .

C. Notes to the financial statements

Note 1. Objectives and activities

6. GCO, in cooperation with National Committees for UNICEF, field offices and others, raises funds for children. Consequently, this makes people aware of UNICEF activities and gives them the opportunity to be involved in its work.

Note 2. Summary of significant accounting policies

7. The accounts are maintained in accordance with the Financial Regulations and Rules of the United Nations Children's Fund and with the Financial Regulations and Rules of the United Nations Children's Fund, Special Supplement, Greeting Card Operation (E/ICEF/FINANCIAL RULES/1/Add.1).

8. The accounting period (fiscal year) of GCO is 1 May to 30 April. The accounts of GCO are incorporated into the UNICEF accounts as at 31 December. Consistent year-end cut-off procedures are in effect to incorporate GCO accounts into the UNICEF financial statements.

9. The accounting unit is the United States dollar. The equivalent in United States dollars of other currencies is established on the basis of the United Nations operational rates of exchange on the transaction date.

10. Deliveries to National Committees and other partners are recorded in local currencies converted into United States dollars at the United Nations exchange rate on the individual delivery dates. GCO gross proceeds reported in local currencies by partners are recorded in United States dollars at the resultant average exchange rates calculated on the basis of the rates used for deliveries. Actual cash collection is recorded in United States dollars at the United Nations rate in effect at the time remittances are received.

11. Assets and liabilities in currencies other than United States dollars are valued for accounting purposes at the prevailing United Nations rates of exchange. Any variance in valuation caused by fluctuation of those rates is accounted for as income or loss and included in the statement of income and expenditure under revaluation of assets and liabilities (exchange rate adjustment). An allowance of 10 per cent of non-United States dollar-denominated outstanding accounts receivable as at 30 April may be established to cover the fluctuation of exchange rates. Further, an allowance for accounts receivable that are considered doubtful for collection may be established. These allowances are shown as a deduction from the accounts receivable on the statement of assets and liabilities.

12. The inventory of raw materials, work in process, finished goods for the following campaign and goods in transit are valued at standard cost. It is GCO policy to write-down unsold cards and dated products at the end of the first sales campaign year and all other products at the end of the second sales campaign year. Products which have been written-down and carried forward are valued at their add-on cost. All publicity and promotion materials produced in the current campaign year, but relating to future campaign years, are shown at standard cost and included in inventory.

13. Capital assets costing $100,000 or more are capitalized and depreciated over their estimated useful life.

14. Liabilities are accrued in the GCO accounts following recognized accounting standards, and appropriate cut-off procedures are consistently followed.

15. Income from private sector fund-raising activities and related expenses are recorded separately in the GCO accounts.

Statement I

Note 3. Gross proceeds - GCO products

16. This shows the total sales value of all GCO products sold during the year. Sales by major product category compared to 1995 are shown below:

	(In millions of United States dollars)			
			Variance	
	1996	1995	$	%
Cards	138.4	139.8	(1.4)	(1.0)
Calendars	4.7	7.1	(2.4)	(33.8)
Stationery	7.6	5.6	2.0	35.7
Educational materials	5.8	6.8	(1.0)	(14.7)
Other products	6.5	7.2	(.7)	(9.7)
Total	163.0	166.5	(3.5)	(2.1)

17. Gross proceeds amounted to $163.0 million, a decrease of $3.5 million over 1995 (2.1 per cent). This decrease was due primarily to the impact of unfavourable exchange rates.

18. Gross proceeds by sales channel for 1996 compared to 1995 were:

	(In millions of United States dollars)			
			Variance	
	1996	1995	$	%
National Committees and other sales partners	143.3	146.8	(3.5)	(2.4)
UNICEF field offices	19.7	19.7	0	0
Total	163.0	166.5	(3.5)	(2.1)

19. A detailed analysis of gross proceeds by country/region is contained in annex I.

Note 4. Retention/commissions and direct expenses at UNICEF field offices

20. This item consists of the amounts retained by National Committees and other partners, commissions paid to consignees and direct operating expenses at UNICEF field offices. This amounted to $41.5 million, a decrease of $0.6 million (or 1.4 per cent) when compared to 1995 actual. A breakdown is given below:

	(In millions of United States dollars)			
			Variance	
	1996	1995	$	%
Retention/commissions	37.0	37.3	(0.3)	(0.8)
Field offices' expenses	4.5	4.8	(0.3)	(6.3)
Total	41.5	42.1	(0.6)	(1.4)

Note 5. Cost of goods delivered

21. The cost of goods delivered, including promotion materials, freight, duties and taxes, was $34.8 million, an increase of $2.1 million (6.4 per cent) over 1995 actual. While the cost of goods delivered increased by $1.8 million (7.9 per cent), freight, duties and taxes increased by $0.2 million (5.6 per cent). The increase in cost of goods delivered was due to the change in product mix and the increase of inventory write-down. To support National Committees' and other sales partners' outreach and growth, the cost of promotion materials in 1996 increased by $0.1 million (1.6 per cent) over 1995. Details are presented below:

	(In millions of United States dollars)			
			Variance	
	1996	1995	$	%
Cost of goods delivered	24.7	22.9	1.8	7.9
Freight, duties, tax	3.8	3.6	0.2	5.6
Promotion materials	6.3	6.2	0.1	1.6
Total	34.8	32.7	2.1	6.4

Note 6. Operating costs

22. The operating costs reflect the total operating costs of the Product Line and Marketing Group, the Operations and Finance Group and the Director's Office. In 1996, while the operating costs of both the Operations and Finance Group and the Product Line and Marketing Group increased, the costs of the Director's Office decreased. In total, they amounted to $24.1 million, an increase of $1.1 million (4.8 per cent) over 1995 actual. As a percentage of gross proceeds, operating costs were 14.8 per cent, an increase of 1.0 per cent when compared to 13.8 per cent in 1995. It should be noted that while the Operations and Finance Group and the Director's Office support both product sales and private sector fund-raising activities of GCO, the operating costs of these groups were charged in full to product sales. Details of the operating costs are summarized below:

(In millions of United States dollars)

			Variance	
	1996	1995	$	%
Product Line and Marketing	8.9	7.9	1.0	12.7
Operations and Finance	14.5	14.0	.5	3.6
Director's Office	0.7	1.1	(0.4)	(36.4)
Total	24.1	23.0	1.1	4.8

Note 7. Provision for uncollectible accounts receivable

23. The $0.6 million provision for uncollectible accounts receivable consists of accounts receivable that may become irrecoverable. It is an increase of $30,000 (5.5 per cent) over 1995. Accounts receivable deemed to be irrecoverable are written-off against the allowance for uncollectible accounts receivable account. Nevertheless, GCO continues its efforts to pursue collection of these amounts.

Note 8. Other income

24. Other income comprises the following:

(a) Income from licensed products, which includes royalties from special programmes, income from Nippon Telegraph and Telephone Corporation's Pressed Flower Telegram Programme in Japan and income from the sale of National Committee products and other items;

(b) Donations, which represent contributions generated through GCO brochures/order forms;

(c) Miscellaneous income, which includes bank interest, discounts on purchases, sale of obsolete

equipment and miscellaneous proceeds.

25. Other income in 1996 amounted to $6.9 million, a decrease of $1.4 million (16.9 per cent) over 1995. A comparison between 1996 and 1995 is presented below.

	(In millions of United States dollars)		Variance	
	1996	1995	$	%
Licensed products	4.8	5.8	(1.0)	(17.2)
Donations	1.8	2.1	(0.3)	(14.3)
Miscellaneous income	0.3	0.4	(0.1)	(25.0)
Total	6.9	8.3	(1.4)	(16.9)

Note 9. Net operating income - GCO products

26. For the 1996 campaign, the net operating income for product line and marketing was $68.8 million, a decrease of $7.7 million (10.1 per cent) over 1995. As a percentage of gross proceeds, the 1996 net operating income was 42.2 per cent, a decrease of 3.8 per cent when compared to the 46.0 per cent in 1995.

Note 10. Net operating income - private sector fund-raising

27. In 1996, private sector fund-raising activities generated for UNICEF total net proceeds of $98.7 million for general resources. This represented a decrease of $2.0 million (2.0 per cent) when compared to 1995. This decrease was due to a strong United States dollar account which had a negative impact on GCO income. For a detailed analysis of the net proceeds by country, see annex II.

28. As presented in the table below, the net operating income from private sector fund-raising activities related to general resources in 1996 amounted to $91.6 million, $1.6 million (1.7 per cent) lower than 1995. This was net of the amount retained by the National Committees; operating costs of the Private Sector Fund-raising Group, including field office expenses; and the costs related to research and development.

Net operating income - private sector fund-raising
(In thousands of United States dollars)

	1996	1995	Variance Increase (decrease) $	Variance Increase (decrease) %
Net proceeds	98 731	100 711	(1 980)	(2.0)
Operating costs				
International Professional staff	1 519	1 768	(249)	(14.1)
General Service staff	915	1 026	(111)	(10.8)
Short-term staff	52	50	2	4.0
Travel, conference and liaison	233	211	22	10.4
Support services and materials	244	308	(64)	(20.8)
Rent, equipment, supplies and freight	423	445	(22)	(4.9)
Field office expenses	2 520	2 598	(78)	(3.0)
Total operating costs	5 906	6 406	(500)	(7.8)
Research and development	1 277	1 132	145	12.8
Net operating income	91 548	93 173	(1 625)	(1.7)

29. In addition to the net operating income from private sector fund-raising activities related to general resources, $103.1 million were earmarked to various UNICEF supplementary-funded projects. This amount is shown as a footnote to statement I in this financial report and included as income in the UNICEF financial report.

30. To develop new methods and to test fund-raising campaigns in 1996, $1.3 million were spent for research and development. This amount was $0.1 million (12.8 per cent) more than 1995.

Note 11. Market Development Programme

31. In 1994, the Executive Board approved the establishment of MDP (E/ICEF/1994/13/Rev.1, decision 1994/A/9) with the goal to test and evaluate new income-generating initiatives in the area of product line and marketing. For 1996, the Executive Board approved $4.0 million (E/ICEF/1996/12/Rev.1, decision 1996/22). Through this programme, interested National Committees submitted requests for funding, and each request was supported with a complete description of the project and a short-term marketing and financial plan. Upon approval of a request, the requested amount was provided by GCO to the National Committee which, in turn, at least matched the amount provided equally and established a separate account for the transparent monitoring of the programme over the planned period. During 1996, 15 National Committees received approval for funding from MDP, with a total value of $1.9 million. For a detailed report on MDP, see the GCO work plan and budget for 1998 (E/ICEF/1998/AB/L.3 and Corr.1).

Note 12. Fund-raising Development Programme

32. To enable GCO to fulfil its mandate in private sector fund-raising activities, the Executive Board, at its 1994 session, authorized the further implementation of FDP for an additional five-year period (E/ICEF/1994/13/Rev.1, decision 1994/A/9) and, at its 1996 session, approved $7.8 million for 1996 (E/ICEF/1996/12/Rev.1, decision 1996/22). The objective of this programme was to increase the capacity of National Committees and UNICEF field offices to build a broader support base in raising funds from the private sector (see E/ICEF/1991/AB/L.6 and E/ICEF/1991/15, decision 1991/35). In 1996, the total expenditure from FDP was $6.5 million. For a detailed report on FDP, see the GCO work plan and budget for 1998 (E/ICEF/1998/AB/L.3 and Corr.1).

Note 13. Exhibits

33. This item covers the cost of producing exhibits and maintaining the Visitors' Centre at UNICEF House. In 1996, these costs were $0.1 million, a decrease of $23,000 when compared to 1995.

Note 14. Central and Eastern European National Committees Development Programme

34. In 1992, the Executive Board approved the Central and Eastern European National Committees Development Programme (E/ICEF/1992/AB/L.6 and E/ICEF/1992/14, decision 1992/40). Initially, the National Committees in this region were allowed to retain, in addition to the 25 per cent retention on gross proceeds, the remaining 75 per cent of gross proceeds as well. This increased retention was intended to cover expenditures for raising awareness, general advocacy, information dissemination, sales network expansion and donor constituency-building. According to the Executive Board-approved formula, starting in 1996, National Committees are contributing 20 per cent to UNICEF, and this rate will go up to 40 per cent in 1997, 60 per cent

in 1998 and the usual 75 per cent of the gross proceeds in 1999 and thereafter. For 1996, the actual expenditure was $0.7 million, $0.6 million lower than in 1995. This reduction was due mainly to National Committees which started contributing 20 per cent to UNICEF in 1996.

Note 15. Total net operating income

35. The total net operating income from GCO product sales and private sector fund-raising activities amounted to $151.2 million, a decrease of $7.9 million (5.0 per cent) compared to 1995. This represents GCO net operating income before non-operating charges, *inter alia*, exchange rate adjustment, prior years' adjustments and office move-related expenses.

Note 16. Exchange rate adjustment

36. This represents the net adjustment for exchange rate, including a 10 per cent provision for exchange rate fluctuations on outstanding non-United States dollar accounts receivable and the effect of the revaluation of assets and liabilities using the 30 April 1997 United Nations operational rate of exchange. The exchange rate adjustment in 1996 was a loss of $11.3 million, an unfavourable change of $8.1 million when compared to the loss of $3.2 million in 1995.

Note 17. Prior years' adjustments

37. In accordance with existing GCO accounting policy, non-recurring adjustments to proceeds and expenditures related to prior years have been recorded as prior years' adjustments. For 1996, these adjustments amounted to a favourable $0.3 million.

Note 18. Office move-related cost

38. The expenses was for the move of GCO office from 38th Street to UNICEF House.

Note 19. Total net income

39. After deducting the non-operating expenses, the total net income from product sales and private sector fund-raising activities in 1996 was $139.5 million, a decrease of $11.8 million (7.8 per cent) compared to 1995 actual.

Statement II

Note 20. Cash

40. Cash ($1.1 million) consisted of balances in GCO bank accounts and petty cash at headquarters and in field offices.

Note 21. Accounts receivable

41. Accounts receivable include amounts due from National Committees and other partners for revenues from product sales, private sector fund-raising activities and royalties and miscellaneous receivables. The gross accounts receivable as at 30 April 1997 were $180.5 million, a decrease of $29.7 million over the balance as at 30 April 1996. The decrease was due to lower income from the product sales, private sector fund-raising activities and early remittances by sales partners. Agreements with National Committees provide for payment of these balances within six months from the end of their respective fiscal years.

Note 22. Net accounts receivable

42. In accordance with GCO accounting policy (see para. 12 above), an allowance to cover accounts receivable that are considered doubtful for collection and an allowance to cover the impact of exchange rate fluctuation on accounts receivable held in non-United States dollar currencies may be established. For 1996, the total allowance for exchange rate fluctuation and estimated uncollectible accounts amounted to $19.0 million. Net accounts receivable after deducting this allowance amounted to $161.5 million.

Note 23. Inventory

43. Inventory is stated at standard cost (raw materials, work in process, finished goods and goods in transit) and, as at 30 April 1997, amounted to $18.7 million, a decrease of $3.1 million compared to the balance as at 30 April 1996. The decrease was due basically to the lower production for the 1997 season. Total inventory as at 30 April 1997 consisted of:

	(In millions of United States dollars)	
	30 April 1997	30 April 1996
Raw materials	3.4	3.7
Work in process	1.8	1.6
Finished goods	8.8	11.4
Goods in transit	4.7	5.2
Total	18.7	21.9

Note 24. Prepaid expenses

44. These represented payments made to suppliers for the production of GCO products and promotion materials for 1997 and future campaigns. Prepaid expenses as at 30 April 1997 amounted to $0.2 million, a

decrease of $4,000 compared to the balance as at 30 April 1996.

Note 25. Capital assets

45. These are stated at cost, less accumulated depreciation (see summary of capital assets as at 30 April 1997 presented below). In accordance with GCO accounting policies, capital assets costing $0.1 million or more are capitalized and depreciated over their estimated useful life. The decrease of $0.7 million in capital assets over the balance as at 30 April 1996 was due mainly to the early termination of leasehold improvements.

	(In millions of United States dollars)	
	30 April 1997	30 April 1996
Production machinery	0.9	0.8
Office equipment and leasehold improvements	1.4	2.6
Subtotal	2.3	3.4
Accumulated depreciation	(1.0)	(1.4)
Total	1.3	2.0

Note 26. Accounts payable

46. Total accounts payable as at 30 April 1997 amounted to $7.8 million, a decrease of $0.5 million compared with the balance as at 30 April 1996. Included in the total accounts payable were liabilities to suppliers and National Committees.

Note 27. Inter-office account

47. This reflects the net result of the transactions between GCO and other UNICEF offices. The balance included monies advanced as working capital to GCO. GCO earnings for each fiscal year also are transferred to UNICEF via this account.

Note 28. Surplus

48. This represents GCO earnings which are transferred to UNICEF general resources income annually. As at 30 April 1997, the surplus was $139.5 million.

Statement III

Note 29. Comparison of 1996 actual results with budget

49. The performance of GCO in 1996 compared with the approved budget is as follows:

(a) Gross proceeds from the sale of GCO products were $7.0 million, or 4.1 per cent less than budget;

(b) National Committees' retention was $1.0 million, or 2.8 per cent less than budget;

(c) Net proceeds from the sale of GCO products were $6.0 million, or 4.5 per cent less than budget;

(d) Other income was $0.4 million, or 6.2 per cent more than budget;

(e) Total net proceeds related to product sales were $5.6 million, or 4.0 per cent less than budget;

(f) Net proceeds from private sector fund-raising activities were $26.3 million, or 21.0 per cent less than budget;

(g) Total income was $31.9 million, or 12.0 per cent less than budget;

(h) Director's Office expenditures were $0.3 million, or 37.5 per cent less than budget;

(i) Expenses related to product line and marketing were $6.0 million, or 10.2 per cent less than budget;

(j) MDP expenditures were $2.1 million, or 52.5 per cent less than budget;

(k) Expenditures related to private sector fund-raising activities were $3.4 million, or 32.4 per cent less than budget;

(l) FDP expenditures were $1.3 million, or 16.7 per cent less than budget;

(m) Expenditures related to operations and finance were $2.6 million, or 18.1 per cent less than budget;

(n) The costs related to exhibits were $0.1 million, or 50 per cent less than the budget;

(o) Office move-related costs were as budgeted;

(p) The GCO share in administrative costs was $0.1 million, or 33.3 per cent less than budget;

(q) Central and Eastern European National Committees Development Programme expenditures were favourable by $0.7 million (50.0 per cent) compared to the budget;

(r) Total expenditures were $16.6 million, or 16.8 per cent less than the budget of $98.9 million;

(s) Total net income before adjustments was $15.3 million (9.2 per cent) lower than the budget of $166.4 million;

(t) The total net income after adjustments was $139.5 million, $26.9 million or 16.2 per cent less than the budget of $166.4 million;

(u) Proceeds from private sector fund-raising activities earmarked for supplementary-funded programmes were $16.9 million (14.1 per cent) less than budget;

(v) The total net revenue of $242.6 million for both general resources and supplementary funds was $43.8 million, or 15.3 per cent less than budget.

Annex I - A

GROSS PROCEEDS GCO PRODUCTS BY REGION, 1995 - 1996 : NATIONAL COMMITTEES

(In thousands of United States dollars)

Country/region	1995 Actual	1996 Actual	Variance Increase (decrease)
Canada	4,029	4,024	(5)
United States of America	10,485	9,907	(578)
Subtotal North America - Region I	14,514	13,931	(583)
Hong Kong	496	598	102
Japan	8,824	8,833	9
Republic of Korea	684	792	108
Subtotal Asia - Region III	10,004	10,223	219
Australia	1,429	1,673	244
New Zealand	227	147	(80)
Subtotal Pacific, India & Pakistan - Region IV	1,656	1,820	164
Austria	2,033	1,765	(268)
Belgium	2,920	2,536	(384)
Denmark	2,352	2,248	(104)
Finland	2,813	2,441	(372)
France	21,873	20,725	(1,148)
Germany	28,929	28,289	(640)
Greece	3,055	2,948	(107)
Ireland	435	422	(13)
Italy	10,542	12,228	1,686
Luxembourg	912	889	(23)
Netherlands	8,765	7,344	(1,421)
Norway	2,075	1,882	(193)
Portugal	2,342	2,542	200
Spain	13,567	14,123	556
Sweden	1,972	1,702	(270)
Switzerland	8,109	7,179	(930)
Turkey	1,593	1,335	(258)
United Kingdom	2,444	2,157	(287)
Central and Eastern European countries	3,545	3,869	324
Other countries	349	677	328
Subtotal Europe - Region IV	120,625	117,301	(3,324)
Total all regions - National Committees	146,799	143,275	(3,524)

Annex I - B
GROSS PROCEEDS GCO PRODUCTS BY REGION, 1995 - 1996 : UNICEF FIELD OFFICES

(In thousands of United States dollars)

Country/region	1995 Actual	1996 Actual	Variance Increase (decrease)
Argentina	1,005	837	(168)
Brazil	4,887	5,544	657
Chile	156	194	38
Colombia	1,320	1,177	(143)
Ecuador	386	445	59
Mexico	725	870	145
Peru	708	846	138
Uruguay	367	363	(4)
Venezuela	202	233	31
Other Countries	1,064	1,269	205
Subtotal Latin America & Caribbean - Region II	10,820	11,778	958
Indonesia	482	405	(77)
Malaysia	69	108	39
Philippines	452	547	95
Singapore	173	213	40
Thailand	281	342	61
Other Countries	714	328	(386)
Subtotal Asia Region - III	2,171	1,943	(228)
India	1,957	1,619	(338)
Pakistan	274	276	2
Other countries	18	23	5
Subtotal Pacific, India & Pakistan - Region IV	2,249	1,918	(331)
Morocco	464	432	(32)
Nigeria	333	421	88
Other Countries	3,630	3,194	(436)
Subtotal Africa, Middle East & N. Africa - Region VI	4,427	4,047	(380)
Total all regions - Field offices	19,667	19,686	19
Total all regions - National Committees	146,799	143,275	(3,524)
Total gross proceeds	166,466	162,961	(3,505)

Annex II

NET PROCEEDS FROM PRIVATE SECTOR FUND-RAISING - 1996 COMPARED TO 1995
(In United States dollars)

	1996			1995			Variance Increase (decrease)		
	General resources	Supplementary funds	Total	General resources	Supplementary funds	Total	General resources	Supplementary funds	Total
National Committees									
Australia		1,037,063	1,037,063		583,306	583,306		453,757	453,757
Austria	1,263,294	692,360	1,955,654	1,114,565	846,692	1,961,257	148,729	(154,332)	(5,603)
Belgium	2,580,100	531,608	3,111,708	2,775,147	793,225	3,568,372	(195,047)	(261,617)	(456,664)
Cyprus	11,272		11,272	16,341		16,341	(5,069)		(5,069)
Czech Republic	17,394		17,394						
Denmark	191,557	343,465	535,021	145,672	70,748	216,420	45,885	272,717	318,601
Estonia	4,418		4,418						
Finland	398,964	1,456,195	1,855,159		1,473,509	1,473,509	398,964	(17,314)	381,650
France	12,273,684	2,718,049	14,991,734	13,099,905	2,054,267	15,154,172	(826,221)	663,782	(162,438)
Germany	10,470,439	24,078,762	34,549,201	17,789,471	20,507,240	38,296,711	(7,319,032)	3,571,522	(3,747,510)
Greece	797,549	255,321	1,052,870	910,862	172,450	1,083,312	(113,313)	82,871	(30,442)
Hong Kong	3,078,106	936,640	4,014,746	2,696,277	1,393,749	4,090,026	381,829	(457,109)	(75,280)
Hungary	6,237		6,237		10,274	10,274	6,237	(10,274)	(4,037)
Ireland	170,456		170,456	246,141		246,141	(75,685)		(75,685)
Italy	11,015,964	3,089,527	14,105,491	8,773,606	4,277,106	13,050,712	2,242,358	(1,187,579)	1,054,779
Japan	26,212,653	5,803,364	32,016,017	23,748,467	9,334,577	33,083,044	2,464,186	(3,531,213)	(1,067,027)
Luxembourg	207,818	189,399	397,217	200,581	485,643	686,224	7,237	(296,244)	(289,007)
Monaco	99,692		99,692				99,692		99,692
Netherlands	18,841,677	12,351,995	31,193,672	17,135,731	13,521,681	30,657,412	1,705,946	(1,169,686)	536,260
New Zealand				76,987	45,182	122,169	(76,987)	(45,182)	(122,169)
Norway	6,541	670,759	677,300	41,535	25,009	66,544	(34,994)	645,750	610,756
Poland	23,077		23,077	45,294		45,294	(22,217)		(22,217)
Portugal	451,455	3,896	455,351	793,974	6,981	800,955	(342,519)	(3,085)	(345,604)
Republic of Korea	2,215,466	571,541	2,787,007	2,394,385	610,713	3,005,098	(178,919)	(39,172)	(218,091)
Republic of Moldova		7,670	7,670					7,670	7,670
Romania	9,911		9,911	9,534		9,534	377		377
Slovakia	27,161	62	27,223	751		751	26,410	62	26,472
Slovenia		33,834	33,834		9,231	9,231		24,603	24,603
Spain	3,360,061	13,954,261	17,314,322	3,127,637	13,562,523	16,690,160	232,424	391,738	624,162
Sweden	531,713	120,216	651,929	362,857	644,885	1,007,742	168,856	(524,669)	(355,813)
Switzerland	4,245,121	2,345,983	6,591,103	4,887,242	3,911,053	8,798,295	(642,121)	(1,565,070)	(2,207,192)
Turkey	19,321	34,424	53,745	12,163	38,679	50,842	7,158	(4,255)	2,903
United Kingdom	149,552	7,935,411	8,084,963		9,719,605	9,719,605	149,552	(1,784,194)	(1,634,642)
United States		10,745,474	10,745,474		8,402,110	8,402,110		2,343,364	2,343,364
	98,680,552	89,907,279	188,587,931	100,405,126	92,500,438	192,905,564	(1,724,474)	(2,593,159)	(4,317,633)

Annex II (continued)

	1996			1995			Variance Increase (decrease)		
	General resources	Supplementary funds	Total	General resources	Supplementary funds	Total	General resources	Supplementary funds	Total
Field offices									
Argentina		1,418,843	1,418,843		1,672,782	1,672,782	0	(253,939)	(253,939)
Brazil		9,376,555	9,376,555		9,308,462	3,308,462	0	68,093	68,093
Burkina Faso							0	0	0
Cameroon				6,312		6,312	(6,312)	0	(6,312)
Chile		29,845	29,845				0	32,836	32,836
Colombia		32,836	32,836		9,583	9,583	0	42,209	42,209
Ecuador		51,792	51,792			2,893	(2,893)	0	(2,893)
Malaysia			0	2,893			0	3,664	3,664
Madagascar		8,762	8,762		5,098	5,098	(223,267)	278,741	55,474
Mexico	30,409	278,741	309,150	253,676		253,676	0	0	0
Morocco									
Niger	3,487		3,487	3,487		3,487			
Nigeria		23,860	23,860						
Panama		6,350	6,350						
Pakistan		8,252	8,252						
Peru		67,514	67,514		116,432	116,432	0	(48,918)	(48,918)
Philippines		742,537	742,537						
Singapore	13,608		13,608	37,187	853	38,040	(23,579)	(853)	(24,432)
Syrian Arab Republic	2,968		2,968						
Thailand		970,175	970,175				0	970,175	970,175
Venezuela		137,350	137,350	2,106	3,380	5,488	(2,108)	133,970	131,862
	50,472	13,153,412	13,203,884	305,662	11,116,589	11,422,251	(255,190)	2,036,823	1,781,633
Total net proceeds	98,731,125	103,060,691	201,791,816	100,710,788	103,617,027	204,327,815	(1,979,663)	(556,336)	(2,536,000)

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For information

Greeting Card and related Operations **

Financial report and statements for the eight-month period ended 31 December 1997

Summary

At its 1996 annual session, the Executive Board decided to change the fiscal year of Greeting Card and related Operations (GCO) from 1 May-30 April to 1 January-31 December (E/ICEF/1996/12/Rev.1, decision 1996/22 C.5). As a consequence, the 1997 fiscal period consists of only eight months, i.e. 1 May-31 December 1997. This document presents the results of operations for the aforementioned period.

Although the GCO fiscal period was changed in 1997 to synchronize with the UNICEF fiscal year, GCO income will continue to be reflected in the UNICEF financial report consistently with previous years, i.e. as of 31 December.

The net operating income from the sale of UNICEF greeting cards and other products was $64.8 million, representing a 44.1 per cent return on gross proceeds and a decrease of $4.0 million (5.8 per cent) compared to 1996. Gross proceeds for 1997 are projected at $147.1 million, a decrease of $15.8 million (9.7 per cent) when compared to 1996.

* E/ICEF/1998/12.
** Effective 1 February 1998, GCO became the Private Sector Division.

The net proceeds from private sector fund-raising activities amounted to $43.1 million. The net operating income was $37.5 million, a decrease of $54.1 million (59.1 per cent) compared to 1996. This decrease resulted from a change in the GCO fiscal period, with 1997 being only an eight-month period compared to 12 months in 1996. With this decrease in net operating income from private sector fund-raising activities and after allowing for other charges of $2.3 million for the Market Development Programme, $6.1 million for the Fund-raising Development Programme and $0.4 million for the Central and Eastern European National Committees Development Programme, GCO, in 1997, achieved a net operating income of $93.5 million, a decrease of $57.7 million (38.2 per cent) when compared to 1996.

After allowing for an unfavourable exchange rate adjustment of $1.9 million and a favourable prior years' adjustment of 1.9 million, GCO total net income in 1997 was $93.5 million, $45.9 million (32.9 per cent) lower than in 1996. In addition, $64.2 million ($103.1 million in 1996) were raised from private sector fund-raising activities which were earmarked by partners for allocation to supplementary-funded projects.

Contents

	Paragraphs	*Page*
Foreword		3
Financial report for the eight-month period ended 31 december 1997	1 - 44	4
A. An overview of the results	1 - 4	4
B. Financial statements for the eight-month period ended 31 December 1997	5	4
Statement I. Statement of income and expenditure for the eight-month period ended 31 December 1997		5
Statement II. Statement of assets, liabilities and surplus as at 31 December 1997		6
Statement III. Statement of the results for the eight-month period ended 31 December 1997 compared with the approved budget		7
C. Notes to the financial statements	6 - 44	8

Foreword

I am pleased to report that in 1997 the Greeting Card and related Operations (GCO) were able to achieve a net contribution to UNICEF general resources income of $93.5 million.

This is due to the work of hundreds of thousands of individuals around the world. Our thanks go to the National Committees for UNICEF and other cooperating groups whose staff and volunteers sold UNICEF cards and other products; to the hundreds of artists, museums and art collectors whose works were made available, at no charge, for greeting card designs; and to the millions of individuals who purchased UNICEF cards and other products and who donated their time and money to the cause of UNICEF throughout the period. Equally important, the above achievements became possible because of the successful fund-raising efforts undertaken by the National Committees for UNICEF and UNICEF field offices, and the millions worldwide who responded with their individual contributions.

(Signed) Carol Bellamy
Executive Director

Financial report for the eight-month period ended 31 December 1997

A. An overview of the results

1. The total net income contribution to UNICEF general resources from GCO activities was $93.5 million. This compares with $139.5 million in 1996, a decrease of $45.9 million (32.9 per cent). The contribution consists of $64.8 million net operating income from the sale of UNICEF greeting cards and other products; $37.5 million net operating income from private sector fund-raising activities; and other charges and adjustments. These other charges and adjustments include Market Development Programme (MDP) expenditure ($2.3 million), Fund-raising Development Programme (FDP) expenditure ($6.1 million), Central and Eastern European National Committees Development Programme expenditure ($0.4 million), unfavourable exchange rate adjustment ($1.9 million) and favourable prior years' adjustments ($1.9 million).

2. Gross proceeds from the sale of UNICEF greeting cards and other products decreased from $163.0 million in 1996 to $147.1 million in 1997. This shortfall is due primarily to the negative impact of the continued strength of the United States dollar.

3. The net operating income from the sale of UNICEF greeting cards and other products in 1997 was $64.8 million (44.1 per cent return on gross proceeds), a decrease of $4.0 million (5.8 per cent) compared to 1996.

4. The net operating income from private sector fund-raising activities related to general resources was $37.5 million in 1997, a decrease of $54.1 million (59.1 per cent) compared to 1996. This decrease resulted from a change in the GCO fiscal period, with 1997 being only an eight-month period copared to 12 months in 1996. In addition, $64.2 million ($103.1 million in 1996) were raised from private sector fund-raising activities which were earmarked, by partners, for allocation to supplementary-funded projects.

B. Financial statements for the eight-month period ended 31 December 1997

5. The three financial statements that follow are supported by the notes to the financial statements, including a summary of significant accounting policies (paras. 7-15), which are considered an integral part of the financial report.

STATEMENT I

Statement of income and expenditure for the eight-month period ended 31 December 1997

(In thousands of United States dollars)

	Note	1997 season 1 May 1997 - 31 December 1997	%	1996 season 1 May 1996 - 30 April 1997	%	Increase/(decrease)	%
Gross proceeds - GCO products	3	147,118	100.0	162,961	100.0	(15,843)	(9.7)
Less: Retention/commissions and direct expenses at field offices	4	36,580	24.9	41,538	25.5	(4,958)	(11.9)
Net proceeds		110,538	75.1	121,423	74.5	(10,885)	(9.0)
Less: Cost of goods delivered	5	31,280	21.3	34,815	21.4	(3,535)	(10.2)
		79,258	53.9	86,608	53.1	(7,350)	(8.5)
Less: Operating costs	6	14,599	9.9	24,142	14.8	(9,543)	(39.5)
Provision for uncollectible accounts receivable	7	969	0.7	577	0.4	392	67.9
		63,690	43.3	61,889	38.0	1,801	2.9
Add: Other income	8	1,144	0.8	6,918	4.2	(5,774)	(83.5)
Net operating income - GCO products	9	64,834	44.1	68,807	42.2	(3,973)	(5.8)
Net operating income - Private sector fund-raising a/	10	37,477		91,548		(54,071)	(59.1)
Less: Other charges				1,879		455	24.2
Market Development Programme	11	2,334		6,473		(338)	(5.2)
Fund-raising Development Programme	12	6,135		135		(135)	(100.0)
Exhibits		0					
Central and Eastern European National Committees Development Programme	13	382		702		(320)	(45.6)
Total net operating income	14	93,460		151,167		(57,707)	(38.2)
Less: Exchange rate adjustment	15	1,875		11,278		(9,403)	(83.4)
Prior years' adjustments(gain)	16	(1,944)		(265)		(1,679)	633.6
Office move-related expenses		0		681		(681)	(100.0)
Total net income	17	93,529		139,472		(45,943)	(32.9)

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

a/ Excluding $64.2 million allocated to supplementary funds compared to $103.1 million in 1996. This is shown in the UNICEF financial report.

Ellen Yaffe, Comptroller
(Signed)

Carol Bellamy, Executive Director
(Signed)

E/ICEF/1998/AB/L.11

STATEMENT II

Statement of assets, liabilities and surplus as at 31 December 1997

(In thousands of United States dollars)

	Note	As at 31 December 1997		As at 30 April 1997		Increase/(decrease)	
ASSETS							
Cash	18		1,107		1,128		(21)
Accounts receivable	19	147,278		180,484		(33,206)	
Less: Allowance for exchange rate fluctuation and uncollectible accounts		15,752		18,955		(3,203)	
Net accounts receivable	20		131,526		161,529		(30,003)
Inventory	21		6,018		18,707		(12,689)
Prepaid expenses	22		141		249		(108)
Capital assets, net of accumulated depreciation	23		1,164		1,306		(142)
TOTAL ASSETS			139,956		182,919		(42,963)
LIABILITIES							
Accounts payable	24	11,039		7,795		3,244	
Inter-office account	25	35,388		35,652		(264)	
TOTAL LIABILITIES			46,427		43,447		2,980
SURPLUS	26		93,529		139,472		(45,943)
TOTAL LIABILITIES AND SURPLUS			139,956		182,919		(42,963)

The accompanying notes form an integral part of this statement and should be read in conjunction with it.

Ellen Yaffe, Comptroller
(Signed)

Carol Bellamy, Executive Director
(Signed)

STATEMENT III

Statement of the results for the eight-month period ended 31 December 1997 compared with the approved budget (In millions of United States dollars)

	Actual	Approved budget a/	Variance Increase (decrease) $	Variance Increase (decrease) %
Income				
Gross proceeds - GCO products	147.1	170.0	(22.9)	(13.5)
Less: National Committees' retention	31.1	37.0	(5.9)	(15.9)
Net proceeds	116.0	133.0	(17.0)	(12.8)
Add: Other income	1.1	6.5	(5.4)	(83.1)
Total net proceeds - GCO products	117.1	139.5	(22.4)	(16.1)
Net proceeds - private sector fund-raising	43.1	113.0	(69.9)	(61.9)
Total income	160.2	252.5	(92.3)	(36.6)
Expenditures				
Director's Office	0.3	0.3	-	-
Product Line and Marketing	43.6	53.8	(10.2)	(19.0)
Market Development Programme	2.3	3.0	(0.7)	(23.3)
Private Sector Fund-raising	5.6	7.0	(1.4)	(20.0)
Fund-raising Development Programme	6.1	7.8	(1.7)	(21.8)
Operations and Finance	6.9	9.6	(2.7)	(28.1)
GCO share in UNICEF administrative costs	0.6	0.6	-	-
Central and Eastern European National Committees Development Programme	0.4	0.6	(0.2)	(33.3)
Total expenditures	65.8	82.7	(16.9)	(20.4)
Total net income before adjustments	94.4	169.8	(75.4)	(44.4)
Less:				
Adjustments				
Provision for doubtful accounts	1.0	-	1.0	-
Exchange rate adjustments	1.8	-	1.8	-
Prior years' adjustments (gain)	(1.9)	-	(1.9)	-
Total net income after adjustments - general resources	93.5	169.8	(76.3)	(44.9)
Add: Supplementary funds - private sector fund-raising	64.2	91.0	(26.8)	(29.5)
Total net revenues - general resources and supplementary funds	157.7	260.8	(103.1)	(39.5)

a/ In accordance with Executive Board decision 1997/14, para.2, these amounts reflect the low projection budget.

For details on variances between actual and the approved budget see note 27 (para. 44).

C. Notes to the financial statements

Note 1. Objectives and activities

6. GCO, in cooperation with National Committees for UNICEF, field offices and others, raises funds for children. Consequently, this makes people aware of UNICEF activities and gives them the opportunity to be involved in its work.

Note 2. Summary of significant accounting policies

7. The accounts are maintained in accordance with the Financial Regulations and Rules of the United Nations Children's Fund and with the Financial Regulations and Rules of the United Nations Children's Fund, Special Supplement, Greeting Card Operation (E/ICEF/FINANCIAL RULES/1/Add.1).

8. The accounting period (fiscal year) of GCO is 1 January to 31 December, pursuant to Executive Board decision 1996/22 C.5 (E/ICEF/1996/12 Rev.1). Therefore, the 1997 fiscal period is an eight-month period. The accounts of GCO are incorporated into the UNICEF accounts as at 31 December. Consistent year-end cut-off procedures are in effect to incorporate GCO accounts into the UNICEF financial statements.

9. The accounting unit is the United States dollar. The equivalent in United States dollars of other currencies is established on the basis of the United Nations operational rates of exchange on the transaction date.

10. Deliveries to National Committees and other partners are recorded in local currencies converted into United States dollars at the United Nations exchange rate on the individual delivery dates. GCO gross proceeds are recorded in United States dollars at the resultant average exchange rates calculated on the basis of the rates used for deliveries. Actual cash collection is recorded in United States dollars at the United Nations rate in effect at the time remittances are received.

11. Assets and liabilities in currencies other than United States dollars are valued for accounting purposes at the prevailing United Nations rates of exchange. Any variance in valuation caused by fluctuation of those rates is accounted for as income or loss and included in the statement of income and expenditure under revaluation of assets and liabilities (exchange rate adjustment). An allowance of 10 per cent of non-United States dollar-denominated estimated outstanding accounts receivable as at 31 December may be established to cover the fluctuation of exchange rates. Further, an allowance for accounts receivable that are considered doubtful for collection may be established. These allowances are shown as a deduction from the accounts receivable on the statement of assets and liabilities.

12. The inventory of raw materials, work in process, finished goods for the following campaign and goods in transit are valued at standard cost. It is GCO policy to write-down unsold cards and dated products at the end of the first sales campaign year and all other products at the end of the second sales campaign year. Products which have been written-down and carried forward are valued at their add-on cost. All publicity and promotion materials produced in the current campaign year, but relating to future campaign years, are shown at standard cost and included in inventory.

13. Capital assets costing $100,000 or more are capitalized and depreciated over their estimated useful life.

14. Liabilities are accrued in the GCO accounts following recognized accounting standards, and appropriate cut-off procedures are consistently followed.

15. Income from private sector fund-raising activities and related expenses are recorded separately in the GCO accounts.

Statement I

Note 3. Gross proceeds - GCO products

16. Gross proceeds for 1997 are $147.1 million, a decrease of $15.8 million over 1996 (9.7 per cent). This decrease was due primarily to the negative impact of the continued strength of the United States dollar.

Note 4. Retention/commissions and direct expenses at UNICEF field offices

17. This item consists of the amounts retained by National Committees and other partners, commissions paid to consignees and direct operating expenses at UNICEF field offices. For 1997, this amounted to $36.6 million, a decrease of $4.9 million (or 11.8 per cent) when compared to 1996 actual. This decrease is due primarily to lower gross proceeds. A breakdown is given below:

	(In millions of United States dollars)			
			Increase/decrease	
	1997	1996	$	%
Retention/commissions	33.5	37.0	(3.5)	(9.5)
Field offices' expenses	3.1	4.5	(1.4)	(31.1)
Total	**36.6**	**41.5**	**(4.9)**	**(11.8)**

Note 5. Cost of goods delivered

18. The cost of goods delivered, including promotion materials, freight, duties and taxes, was $31.2 million, a decrease of $3.6 million (10.3 per cent) over 1996 actual. This decrease comprised reductions in cost of goods delivered by $2.2 million (8.9 per cent), freight, duties and taxes by $1.2 million (31.6 per cent) and the cost of promotion materials by $0.2 million (3.2 per cent) over 1996. These decreases are due primarily to improved sales forecasting and product mix. Details are presented below:

	(In millions of United States dollars)			
			Increase/decrease	
	1997	*1996*	*$*	*%*
Costs of goods delivered	22.5	24.7	(2.2)	(8.9)
Freight, duties, tax	2.6	3.8	(1.2)	(31.6)
Promotion materials	6.1	6.3	(0.2)	(3.2)
Total	**31.2**	**34.8**	**(3.6)**	**(10.3)**

Note 6. Operating costs

19. The operating costs reflect the total operating costs of the Product Line and Marketing Group, the Operations and Finance Group and the Director's Office. In 1997, the operating costs of both the Operations and Finance Group and the Product Line and Marketing Group decreased. In total, they amounted to $14.6 million, a decrease of $9.5 million (39.4 per cent) over 1996 actual. As a percentage of gross proceeds, operating costs were 9.9 per cent, a decrease of 4.9 per cent when compared to 14.8 per cent in 1996. This reduction was due mainly to the shorter reporting period (8 months versus 12 months in 1996). Details of the operating costs are summarized below:

	(In millions of United States dollars)			
			Increase/decrease	
	1997	1996	$	%
Product Line and Marketing	5.2	8.9	(3.7)	(41.6)
Operations and Finance	8.6	14.5	(5.9)	(40.7)
Director's Office	0.8	0.7	0.1	14.3
Total	**14.6**	**24.1**	**(9.5)**	**(39.4)**

Note 7. Provision for uncollectible accounts receivable

20. The $1.0 million provision for uncollectible accounts receivable consists of accounts receivable that may become irrecoverable. This is an increase of 0.4 million (67.9 per cent) over 1996. Accounts receivable deemed to be irrecoverable are written-off against the allowance for uncollectible accounts receivable account. Nevertheless, GCO continues its efforts to pursue collection of these amounts.

Note 8. Other income

21. Other income is based on the actual income received by field offices and those reported by National Committees by 31 December and comprises the following:

(a) *Income from licensed products*, which includes royalties from special programmes, income from Nippon Telegraph and Telephone Corporation's Pressed Flower Telegram Programme in Japan and income from the sale of National Committee products and other items;

(b) *Donations*, which represent contributions generated through GCO brochures/order forms;

(c) *Miscellaneous income*, which includes bank interest, discounts on purchases, sale of obsolete equipment and miscellaneous proceeds.

22. Other income in 1997 amounted to $1.1 million, a decrease of $5.8 million (84.1 per cent) over 1996. A comparison between 1997 and 1996 is presented below:

	(In millions of United States dollars)			
			Increase/decrease	
	1997	1996	$	%
Licensed products	0.8	4.8	(4.0)	(83.3)
Donations	0.1	1.8	(1.7)	(94.4)
Miscellaneous income	0.2	0.3	(0.1)	(33.3)
Total	**1.1**	**6.9**	**(5.8)**	**(84.1)**

Note 9. Net operating income - GCO products

23. For the 1997 campaign, the net operating income from the sale of GCO products was $64.8 million, a decrease of $4.0 million (5.8 per cent) over 1996. As a percentage of

gross proceeds, the 1997 net operating income was 44.1 per cent, an increase of 1.9 per cent when compared to 42.2 per cent in 1996.

Note 10. Net operating income - private sector fund-raising

24. In 1997, total net proceeds from private sector fund-raising activities received by field offices and reported by partners by 31 December amounted to $43.1 million for general resources, a decrease of $55.6 million (56.3 per cent) when compared to 1996. This decrease resulted from a change in the GCO fiscal period, with 1997 being only an eight-month period compared to 12 months in 1996.

25. As presented in the table below, the net operating income from private sector fund-raising activities related to general resources in 1997 amounted to $37.5 million, $54.1 million (59.1 per cent) lower than 1996. This was net of the amount retained by the National Committees, operating costs of the Private Sector Fund-raising Group, including field office expenses, and the costs related to research and development.

26. In addition to the net operating income from private sector fund-raising activities related to general resources, $64.2 million were earmarked to various UNICEF supplementary-funded projects. This amount is shown as a footnote to statement I in the present financial report and included as income in the UNICEF financial report.

Net operating income - private sector fund-raising for the eight-month period ended 31 December 1997

(In thousands of United States dollars)

	1997	1996 a/	Variance Increase (decrease) $	Variance Increase (decrease) %
Net proceeds	43 129	98 731	(55 602)	(56.3)
Operating costs				
International Professional staff	734	1 519	(785)	(51.7)
General Service staff	443	915	(472)	(51.6)
Short-term staff	6	52	(46)	(88.5)
Travel, conference and liaison	146	233	(87)	(37.3)
Support services and materials	249	244	5	2.0
Rent, equipment, supplies and freight	197	423	(226)	(53.4)
Field office expenses	2 130	2 520	(390)	(15.5)
Total operating costs	3 905	5 906	(2 001)	(33.9)
Research and development	1 747	1 277	470	36.8
Net operating income	37 477	91 548	(54 071)	(59.1)

a/ 1996 was a 12-month period.

27. To develop new methods and to test fund-raising campaigns in 1997, $1.7 million were spent for research and development. This amount was $0.5 million (36.8 per cent) higher than 1996.

Note 11. Market Development Programme

28. In 1994, the Executive Board approved the establishment of MDP (E/ICEF/1994/13/Rev. 1, decision 1994/A/9) with the goal to test and evaluate new income-generating initiatives in the area of product line and marketing. For 1997, the Executive Board approved $3.0 million. Through this programme, interested National Committees submitted requests for funding, and each request was supported with a complete description of the project and a short-term marketing and financial plan. Upon approval of a request, the requested amount was provided by GCO to the National Committee which, in turn, at least matched the amount provided equally and established a separate account for the transparent monitoring of the programme over the planned period. During 1997, 17 National Committees received approval for funding from MDP, with a total value of $2.3 million.

Note 12. Fund-raising Development Programme

29. To enable GCO to fulfil its mandate in private sector fund-raising activities, the Executive Board, at its 1994 session, authorized the further implementation of FDP for an additional five-year period and, at its 1997 session, approved $7.8 million for 1997. The objective of this programme was to increase the capacity of National Committees and UNICEF field offices to build a broader support base in raising funds from the private sector (see E/ICEF/1991/AB/L.6 and E/ICEF/1991/15, decision 1991/35). In 1997, the total expenditure from FDP was $6.1 million.

Note 13. Central and Eastern European National Committees Development Programme

30. In 1992, the Executive Board approved the Central and Eastern European National Committees Development Programme (E/ICEF/1992/AB/L.6 and E/ICEF/1992/14, decision 1992/40). Initially, the National Committees in this region were allowed to retain, in addition to the 25 per cent retention on gross proceeds, the remaining 75 per cent of gross proceeds as well. This increased retention was intended to cover expenditures for raising awareness, general advocacy, information dissemination, sales network expansion and donor constituency-building. According to the Executive Board-approved formula, starting in 1997, National Committees are contributing 40 per cent to UNICEF and this rate will go up to 60 per cent in 1998, and the usual 75 per cent of the gross proceeds in 1999 and thereafter. For 1997, the actual expenditure was $0.4 million, $0.3 million (45.6 per cent) lower than in 1996. This reduction was due mainly to the increased percentage contribution by National Committees to UNICEF as referred to above.

Note 14. Total net operating income

31. The total net operating income from GCO product sales and private sector fund-raising activities amounted to $93.5 million, a decrease of $57.7 million (38.2 per cent) compared to 1996. This represents GCO net operating income before non-operating charges, *inter alia*, exchange rate adjustment and prior years' adjustments.

Note 15. Exchange rate adjustment

32. This represents the net adjustment for exchange rate, including a 10 per cent provision for exchange rate fluctuations on outstanding non-United States dollar accounts receivable and the effect of the revaluation of assets and liabilities using the 31 December

1997 United Nations operational rate of exchange. The exchange rate adjustment in 1997 amounted to a loss of $1.9 million, a decrease of $9.4 million when compared to the loss of $11.3 million in 1996.

Note 16. Prior years' adjustments

33. In accordance with existing GCO accounting policy, non-recurring adjustments to proceeds and expenditures related to prior years have been recorded as prior years' adjustments. For 1997, these adjustments amounted to a favourable $1.9 million.

Note 17. Total net income

34. After deducting the non-operating expenses, the total net income from product sales and private sector fund-raising activities in 1997 was $93.5 million, a decrease of $45.9 million (32.9 per cent) compared to 1996 actual.

Statement II

Note 18. Cash

35. Cash ($1.1 million) consisted of balances in GCO bank accounts and petty cash at headquarters and in field offices.

Note 19. Accounts receivable

36. Accounts receivable include amounts due from National Committees and other partners for revenues from product sales, private sector fund-raising activities and royalties and miscellaneous receivables. The gross accounts receivable as at 31 December 1997 were $147.3 million, a decrease of $33.2 million over the balance as at 30 April 1997. Agreements with National Committees provide for payment of these balances within six months from the end of their respective fiscal years.

Note 20. Net accounts receivable

37. In accordance with GCO accounting policy (see para. 11 above), an allowance to cover accounts receivable that are considered doubtful for collection and an allowance to cover the impact of exchange rate fluctuation on accounts receivable held in non-United States dollar currencies may be established. For 1997, the total allowance for exchange rate fluctuation and estimated uncollectible accounts amounted to $15.8 million. Net accounts receivable after deducting this allowance amounted to $131.5 million.

Note 21. Inventory

38. Inventory is stated at standard cost (raw materials, work in process, finished goods and goods in transit) and, as at 31 December 1997, amounted to $6.0 million, a decrease of $12.7 million compared to the balance as at 30 April 1997. The decrease was due basically to the lower on hand inventory of raw materials, finished goods and goods-in-transit as at 31 December 1997.

	(In millions of United States dollars)	
	31 December 1997	*30 April 1997*
Raw materials	2.1	3.4
Work in process	1.2	1.8
Finished goods	2.0	8.8
Goods in transit	0.7	4.7
Total	**6.0**	**18.7**

Note 22. Prepaid expenses

39. These represented payments made to suppliers for the production of GCO products and promotion materials for 1998 and future campaigns. Prepaid expenses as at 31 December 1997 amounted to $0.1 million, a decrease of $0.1 million compared to the balance as at 30 April 1997.

Note 23. Capital assets

40. These are stated at cost, less accumulated depreciation (see summary of capital assets as at 31 December 1997 presented below). In accordance with GCO accounting policies, capital assets costing $0.1 million or more are capitalized and depreciated over their estimated useful life. The decrease of $0.2 million in capital assets over the balance as at 30 April 1997 was the depreciation of machinery, office equipment and amortization of leasehold improvements during the period.

	(In millions of United States dollars)	
	31 December 1997	*30 April 1996*
Production machinery	1.0	0.9
Office equipment and leasehold improvements	1.2	1.4
Subtotal	2.2	2.3
Accumulated depreciation	(1.1)	(1.0)
Total	**1.1**	**1.3**

Note 24. Accounts payable

41. Total accounts payable as at 31 December 1997 amounted to $11.0 million, an increase of $3.2 million compared with the balance as at 30 April 1997. Included in the total accounts payable were liabilities to suppliers and National Committees.

Note 25. Inter-office account

42. This reflects the net result of the transactions between GCO and other UNICEF offices. The balance included monies advanced as working capital to GCO. GCO earnings for each fiscal period also are transferred to UNICEF via this account.

Note 26. Surplus

43. This represents GCO earnings which are transferred to UNICEF general resources income annually. As at 31 December 1997, the surplus was $93.5 million.

Statement III

Note 27. Comparison of 1997 actual results with budget

44. GCO performance in 1997 compared with the approved budget is as follows:

(a) Gross proceeds from the sale of GCO products were $22.9 million, or 13.5 per cent less than budget;

(b) National Committees' retention was $5.9 million, or 15.9 per cent less than budget;

(c) Net proceeds from the sale of GCO products were $17.0 million, or 12.8 per cent less than budget;

(d) Other income was $5.4 million, or 83.1 per cent less than budget;

(e) Total net proceeds related to product sales were $22.4 million, or 16.1 per cent less than budget;

(f) Net proceeds from private sector fund-raising activities were $69.9 million, or 61.9 per cent less than budget;

(g) Total income was $92.3 million, or 36.6 per cent less than budget;

(h) Director's Office expenditures were as budgeted;

(i) Expenses related to product line and marketing were $10.2 million, or 19.0 per cent less than budget;

(j) MDP expenditures were $0.7 million, or 23.3 per cent less than budget;

(k) Expenditures related to private sector fund-raising activities were $1.4 million, or 20.0 per cent less than budget;

(l) FDP expenditures were $1.7 million, or 21.8 per cent less than budget;

(m) Expenditures related to operations and finance were $2.7 million, or 28.1 per cent less than budget;

(n) The GCO share in administrative costs were as budgeted;

(o) Central and Eastern European National Committees Development Programme expenditures were favourable by $0.2 million (33.3 per cent) compared to the budget;

(p) Total expenditures were $16.9 million, or 20.4 per cent less than the budget of $82.7 million;

(q) Total net income before adjustments was $75.4 million (44.4 per cent) lower than the budget of $169.8 million;

(r) The total net income after adjustments was $76.3 million, or 44.9 per cent less than the budget of $169.8 million;

(s) Proceeds from private sector fund-raising activities earmarked for supplementary-funded programmes were $26.8 million (29.5 per cent) less than budget;

(t) The total net revenues for both general resources and supplementary funds were $103.1 million (39.5 per cent) less than budget.

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For action

UNICEF recovery policy

Report of the Advisory Committee on Administrative and Budgetary Questions

* E/ICEF/1998/12.

98-17530

I. INTRODUCTION

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Executive Director of the United Nations Children's Fund (UNICEF) on the recovery policy (E/ICEF/1998/AB/L.6). The report is submitted in response to the Executive Board decision 1994/R.3/5 of 5 October 1994 (E/ICEF/1994/13/Rev.1), in which the Board requested the Executive Director to review the adequacy of the UNICEF recovery policy and to submit the review, with recommendations, for the consideration of the Board.

2. Annex I of the report of the Executive Director summarizes the development of the current UNICEF policy on recovery of support costs from supplementary-funded programmes for the period from 1986 to January 1998. Information on the development of the UNICEF recovery policy since its inception in 1968, when UNICEF was authorized to accept supplementary funds contributions from Governments, is contained in the annex to document E/ICEF/1994/AB/L.2.

3. In decision 1994/R.3/5, the Executive Board decided that, beginning with the 1996-1997 administrative and programme support budget, the policy of charging 6 per cent to all supplementary-funded projects should be discontinued and replaced by an interim policy whereby all headquarters posts previously charged to recovery funds would be charged to the administrative and programme support budget without any change to contractual status. In accordance with this interim policy, the Board decided that for all supplementary-funded programmes signed after 31 December 1995, 3 per cent of the total supplementary-funded programme would be recovered and applied to the general operating cost of field offices. Moreover, for the donors previously exempted from payment of the recovery charge, or not specifically identified in previous Executive Board decisions on recovery policy, the Board decided that the 3 per cent recovery charge also would apply and that the recovery policy would be an interim policy to be reviewed further by the Board in 1999. In this connection, as indicated in paragraph 34 of the UNICEF biennial support budget for 1998-1999 (E/ICEF/1998/AB/L.1 and Corr.1), the Committee recalls that the Executive Director recommended that the Board review the issue at its second regular session in 1998 so that the decision of the Board on the recovery policy would be incorporated into the biennial budget for 2000-2001.

4. In its decision 1998/2 of 30 January 1998 (E/ICEF/1998/6 (Part I)), the Board approved the UNICEF biennial support budget for 1998-1999. The Advisory Committee recalls that the gross biennial support budget is formulated to support programme activities funded from both regular and other resources (E/ICEF/1998/AB/L.1, paras. 13-17). As indicated in paragraph 15 of document E/ICEF/1998/AB/L.2, other resources for the biennial support budget for the biennium 1998-1999 include recovery income from supplementary-funded projects, estimated at $23.4 million based on 3 per cent recovery charges to supplementary funds estimated at $780 million. In accordance with Executive Board decision 1994/R.3/5, this amount would be applied to cover the share of general operating costs of supplementary-funded projects in field offices. In this connection, the Committee recalls that it had indicated that if income estimates to the support budget did not materialize as projected, there would be a need to effect additional economy measures. Moreover, the Committee requested that in the next budget submission, the adequacy of the 3 per cent recovery charge to supplementary funds be addressed (E/ICEF/1998/AB/L.2, para. 15).

5. The Advisory Committee notes from paragraph 14 and annex III of the report that the proportion of income for supplementary-funded projects to total income increased from 36 per cent in 1982 to 47 per cent in 1995 and then declined slightly to about 41 per cent of total income in the biennium 1996-1997. For 1998-1999, supplementary-funding income, as shown in table 1 of the report, is projected to be $780 million, or 40 per cent of the total projected income of $1,903 million (see also table 3 of E/ICEF/1998/AB/L.1). The Committee has commented in the past on the relatively large proportion of supplementary-funded resources to total income. The Committee emphasized that the recovery of overhead charges and the need to avoid subsidizing supplementary-funded projects by using general resources to cover their administrative costs are issues of concern to the Committee and to the UNICEF governing body (E/ICEF/1994/AB/L.16, paras. 12 and 14).

II. RECOVERY OF SUPPORT COSTS

6. Chapter IV of the report discusses the methodology used to estimate cost recovery at UNICEF. Using the cost estimates for the support budget for the biennium 1998-1999, the costs of supporting supplementary-funded projets is presented for two separate areas: country and regional offices in the field; and headquarters. As indicated in paragraphs 36-38 and table 5 of the report, total support costs for supplementary-funded projects for field offices and headquarters amount to $71.8 million. It is proposed to cover them by increasing the recovery charge to supplementary-funded projects from 3 to 5 per cent to obtain credits for the support budget of field offices of about $40 million. The remaining cost of about $32 million would be covered by potential interest income that would be derived from cash balances of supplementary-funded projects.

7. Paragraphs 17 and 18 and table 2 of the report show the amounts recovered from supplementary funds for the period from 1992-1993 to 1996-1997 and projections for 1998-1999 (i.e., $19 million, $31 million and $27 million for the three prior bienniums and $23 million projected for 1998-1999). Interest income earned on supplementary funding cash balances amounts to $15 million, $22 million and $32 million for the three prior bienniums and is projected to $32 million for 1998-1999.

8. In the view of the Advisory Committee, the explanations given in paragraphs 17 and 18 in respect of the treatment of interest income from supplementary funding balances could be misleading. For example, it is indicated that "to present an accurate picture of the recovery, the interest income from supplementary funding balances is added to the actual and estimated recovery to total $34 million, $53 million, $58 million and $55 million respectively for the four biennia." According to the Executive Director, these figures are derived from the addition of the amounts recovered from supplementary funds and the interest earned on supplementary funding cash balances, which are distributed proportionally to the support budget (i.e., programme support plus management and administration). However, as indicated in annex I and the recommendation in paragraph 40 (b), interest income received from the unexpended supplementary funding cash balances would continue to be credited to general resources income and not to the support budget. The Advisory Committee questions a procedure whereby interest income that is credited to general resources would, in fact, be used to offset support costs as it does not provide a clear accounting trail.

9. The Committee points out that, in light of potential fluctuations in the pattern of receipts and disbursements of supplementary funds, as well as fluctuations in exchange rates and interest rates, it would not be prudent, as a matter of policy, to rely on interest income accruing on cash balances of supplementary funds to cover shortfalls in support costs recovery.

Cost recovery in country and regional offices

10. Paragraphs 20-26 and table 3 of the report present the basic assumptions and the estimates of three categories of support costs for supplementary-funded projects in country and regional offices (i.e., substantive support, operational support and common general operating support), amounting to $47 million, or 17.4 per cent of the total support budget of $270 million for country and regional offices in 1998-1999.

11. With regard to the substantive support costs for supplementary-funded projects in country and regional offices, taking into account the definition of substantive support indicated in paragraph 20 (a) of the report, the Advisory Committee believes that the assumption made in paragraph 22 of the report that in the field offices most of the costs in substantive support are not affected by the volume of supplementary funding is questionable. The Committee recalls that, as shown in document E/ICEF/1998/AB/L.4, for country and regional offices in the biennium 1998-1999, the proportion of supplementary-funded programmes to the total programme is larger than the proportion of the regular resources to the total programme. Thus, in the biennium 1998-1999, for regional and country offices, the amount of $780,407,500, or 56.8 per cent of the total programme budget is estimated to be funded from other resources, which are primarily supplementary-funded resources, and the amount of $594,621,500, or 43.2 per cent to be funded from regular resources. In the Committee's opinion, the assumption made in paragraph 22 of the report is not entirely valid since all programme activities funded from supplementary resources require substantive support. Furthermore, because the substantive support costs are significant, as most of the staff in this category are international Professionals, if no allocation is made from this cost category, recovery from supplementary funding is substantially underestimated.

12. With regard to operational support costs for supplementary-funded projects in country and regional offices, the Advisory Committee notes from paragraphs 23-25, table 3 and annex III of the report that these costs, as defined in paragraph 20 (b) of the report, would amount to $22 million, or about 30 per cent of the budget of the field offices' operations sections for 1998-1999 (also shown as 29.05 per cent in annex III of the report). The results presented in annex III to the report for the office activity-based costs analysis in a country case study depend largely on the assumptions made with respect to the percentage distribution between general resources and supplementary funding resources (i.e., in annex III, general resources for programmes are assumed to be 52.5 per cent and 47.5 per cent for supplementary-funded programmes). The Advisory Committee believes that operational support costs for supplementary-funded projects in country and regional offices would have been higher if the resource ratios reported to the Executive Board in document E/ICEF/1998/AB/L.4 for general resources and supplementary-funded programmes had been utilized in the exercise (see paragraph 11 above).

13. The common general operating support costs for supplementary-funded programmes in country and regional offices, as defined in paragraph 20 (c) of the report, is estimated at $25 million, or 40 per cent of the total common general operation costs for 1998-1999 of the field offices (E/ICEF/1998/AB/L.6, para. 25 and table 3). The Advisory Committee notes that the share of common general operating costs for supplementary funding is also largely dependent on the assumption made with respect to the percentage distribution

between general resources and supplementary-funded resources, which, as indicated in paragraphs 7 and 8 above, is not consistent with the information provided in document E/ICEF/1998/AB/L.4, and could be higher than that shown in the report.

Cost recovery for headquarters

14. For headquarters, paragraphs 27-35 and table 4 discuss the basic assumptions and show that support cost estimates for supplementary-funded projects amount to $24.8 million for 1998-1999, or 29.9 per cent of the total support budget of $83.1 million for five headquarters units (i.e., Supply Division, Office of Emergency Programmes, Division of Financial and Administrative Management (DFAM), Division of Human Resources and the Programme Funding Office). Annex IV identifies the data used to measure the support cost percentages of the five headquarters units.

15. The Advisory Committee notes from paragraph 29 that the Programme Division and the development of the Programme Manager System are activities not included in the cost recovery exercise, as these activities are considered policy development and programme support activities that would exist regardless of supplementary-funded programmes.

16. With regard to Programme Division, taking into account the information provided in chapter II of the report, the Advisory Committee is not convinced that the volume of supplementary-funded programme does not have any bearing on the cost of the activities of Programme Division. The Committee believes that a better explanation should have been provided in this respect in paragraph 29 of the report.

17. The Advisory Committee notes that the rationale for selecting the workload indicators, identified as cost drivers for headquarters units in annex IV of the report, is not explained in the document. It is not clear what methodology was used to select the indicators and how the cost allocation percentage was determined. For DFAM, the Committee notes that the proportion of 40 per cent of supplementary-funded programmes to total resources was used as a workload indicator, presumably on the basis of the income projections for 1998-1999 indicated in paragraph 5 above.

Conclusions and recommendations

18. The Advisory Committee recalls that, as indicated in paragraphs 12-14 of document E/ICEF/1994/AB/L.2, United Nations organs, programmes and agencies, differing widely in their mandates and nature of operations, have a variety of mechanisms and rates for the recovery of administrative and programme support costs. Thus, for example, for the United Nations Development Programme (UNDP), when it receives earmarked funds for specific projects, all identifiable incremental overhead administrative costs at both field and headquarters levels are built into individual project budgets, and when it uses other United Nations bodies as executing agencies, it is authorized to pay agency support costs ranging from a low of 5 per cent to more than 18 per cent. For management services contracts, the Committee noted that fees ranging from 3 to 11 per cent are charged by UNDP in accordance with a scale based on the nature and cost of services.

19. With respect to the recommendations contained in the draft decision in paragraphs 40 (c) of the report, the Advisory Committee is not convinced that a case has been made in support of the proposed methodology for the calculation of recovery of support costs. Subject to what the Executive Board may decide at its second regular session in 1998, the Advisory Committee recommends that a full analysis of the recovery charges be included in the support budget for the biennium 2000-2001.

20. In paragraph 40 (e) of the report, the Executive Director recommends that the total estimated support costs of $72 million to be incurred in the 1999 support budget in country and regional offices ($47 million) and at headquarters ($25 million) be covered by applying a 5 per cent recovery from supplementary funding ($40 million) plus projected interest income ($32 million) (see also paragraph 36 and table 5 of the report). In this regard, taking into account its view, as indicated in paragraph 9 above, the Committee believes that projected estimates of interest income are not reliable enough to be applied in the manner proposed by the Executive Director. Under the circumstances, the Advisory Committee recommends that a recovery rate be calculated which would be sufficient to cover the support costs to be incurred in the 1999 support budget. This rate would be applied, as indicated in paragraph 40 (f) of the report, to all new agreements to be signed after Board approval. The interest earned on the supplementary funding cash balances would continue to be credited to general resources (see paragraph 8 above).